

**Northern Kentucky Water District**

**Responses  
To  
Data Request**

**From  
Attorney General Office**

**Date 12-3-2003**

**And**

**Second Response to Question 8 & 10 from  
First Data Request**

**Filed 12-17-2003**

Commonwealth of Kentucky  
Before the Public Service Commission

In the Matter of:

APPLICATION OF NORTHERN KENTUCKY	)	
WATER DISTRICT FOR (A) AN	)	Case No. 2003-00224
ADJUSTMENT OF RATES; (B) A CERTIFICATE	)	
OF PUBLIC CONVENIENCE AND NECESSITY	)	
FOR IMPROVEMENTS TO WATER FACILITIES	)	
IF NECESSARY AND (C) ISSUANCE OF BONDS	)	

SUPPLEMENTAL REQUEST FOR INFORMATION  
BY THE ATTORNEY GENERAL  
TO THE NORTHERN KENTUCKY WATER DISTRICT

The Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention, submits this Supplemental Request for Information to the Northern Kentucky Water District.

(1) In each case where a request seeks data provided in response to a staff request, reference to the appropriate request item will be deemed a satisfactory response.

(2) Please identify the company witness who will be prepared to answer questions concerning each request.

(3) These requests shall be deemed continuing so as to require further and supplemental responses if the company receives or generates additional information within the scope of these requests between the time of the response and the time of any hearing conducted hereon.

(4) If any request appears confusing, please request clarification directly from the Office of Attorney General.

(5) To the extent that the specific document, workpaper or information as requested does not exist, but a similar document, workpaper or information does exist, provide the similar document, workpaper, or information.

(6) To the extent that any request may be answered by way of a computer printout, please identify each variable contained in the printout which would not be self evident to a person not familiar with the printout.

(7) If the company has objections to any request on the grounds that the requested information is proprietary in nature, or for any other reason, please notify the Office of the Attorney General as soon as possible.

(8) For any document withheld on the basis of privilege, state the following: date; author; addressee; indicated or blind copies; all persons to whom distributed, shown, or explained; and, the nature and legal basis for the privilege asserted.

(9) In the event any document called for has been destroyed or transferred beyond the control of the company state: the identity of the person by whom it was destroyed or transferred, and the person authorizing the destruction or transfer; the time, place, and method of destruction or transfer; and, the reason(s) for its destruction or transfer. If destroyed or disposed of by operation of a retention policy, state the retention policy.

Respectfully submitted,

A.B. CHANDLER III  
ATTORNEY GENERAL

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*Notice of Filing*

Counsel gives notice of the filing of the original and ten photocopies of the Supplemental Request for Information by hand delivery to Thomas M. Dorman, Executive Director, Public Service Commission, 211 Sower Boulevard, Frankfort, Kentucky 40601. 3 December 2003 is the date of filing.

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Assistant Attorney General

*Certificate of Service*

Counsel certifies service of a true and correct photocopy of the Supplemental Request for Information. Service was through mailing the document, first class postage prepaid, to the other parties of record on 3 December 2003. The following are the other parties of record: Ronald J. Barrow, Northern Kentucky Water District, P. O. Box 220, Cold Spring, Kentucky 41076; John N. Hughes, 124 West Todd Street, Frankfort, Kentucky 40601; and Charles H. Pangburn, III, Hemmer, Spoor, Pangburn, DeFrank & Kasson PLLC, 250 Grandview Drive, Suite 200, Fort Mitchell, Kentucky 41017.

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Assistant Attorney General

SUPPLEMENTAL REQUEST FOR INFORMATION  
BY THE ATTORNEY GENERAL  
TO THE NORTHERN KENTUCKY WATER DISTRICT

AG-2-1) Re. response to AG-1-3: Mr. Ross' Exhibit A shows that the total requested bond issuance of \$10,455,000 covers the projected construction of \$9,438,000, issuance costs, underwriters discount, debt service reserve and contingency, i.e., the \$10,455,000 already covers all of the items mentioned in the response to AG-1-3 that presumably make up the difference between the \$10,455,000 and \$13,500,000. In addition, no where in the filing schedules do we see a requested bond issuance of \$13.5 million. Also, the debt service requirement shown on Schedule 3 of Exhibit N includes the interest and principal payments associated with a \$10,455,000 2003 bond issue rather than a \$13,500,000 2003 bond issue. Based on the foregoing information, the AG renews its request to (1) reconcile the requested bond issuance of \$13.5 million described on page 2 of Mr. Lovan's with the request for parity bonds in this case of \$10.455 million and (2) explain where in the filing schedules details of this \$13.5 million bond issue can be found.

**Answer/Witness:Barrow.** There is no bond issue for \$13.5 million. When the District was first putting the case together, there where projects of about \$12,000,000, however when the application was filed the projects were reduce back to \$9,438,000.00. The amount referred to in the testimony of Mr. Lovan of \$13.5 million as bonds is a typo error and should read "bonds in the amount of \$10,455,000.

AG-2-2) Re. response to AG-1-7: Explain in detail all of the reasons and/or calculations in support of the assumption that only 40% of the new connections will actually connect during the test year.

**Answer/Witness: Howe**

As noted in the application, the 40 percent connection rate is an assumption, based on the following: (1) the lines serving the new customers have not been constructed, (2) within the test year, completion of the new lines will not be 100 percent (in other words, it will take more than 1 year to install all the new lines), and (3) when the lines are available, customers will not immediately connect (i.e., the houses/businesses will need to be established and "sold" before a connection is made).

AG-2-3) Re. response to AG-1-7: Using the Fixed Charges and Commodity Charges information shown on Exhibit L, show all calculations and assumptions underlying the assume per customer revenue numbers of \$750 and \$1,100.

**Answer/Witness: Howe**

The \$750 and \$1,100 figures used are not a fixed charge or commodity charge and thus, are not on Exhibit L. The \$750 and \$1,100 figure may be found in the District's current tariff, under the connection fees schedule.

AG-2-4) Re. response to AG-1-7: What is the basis for the Company's assumption that 90% of the new connections will be residential and 10% Other connections.

**Answer/Witness: Howe**

The majority of the existing unserved areas is populated with residential homes. The 90 percent/10 percent split is a commonly used assumption in the rate-making industry.

AG-2-5) Re. response to AG-1-12: The revenue annualization adjustment of \$7,235,654 for the rate increase that became effective in June 2003 is \$512,539 lower than the actual annual revenue increase of \$7,748,193 received in the prior case. The response to AG-1-12 attributes this to differences in billing determinants ("volumes") in the current case Test year ending 5/31/03 and the PSC revenue increase calculation in the prior case based on the year 2002. In this regard, provide the following additional information:

- A. Provide the billing determinants ("volumes") used to determine the rate increase of \$7,748,193 in the prior case and compare these billing determinants with the corresponding billing determinants for the test year used in the current case.

**Answer/Witness: Howe**

Please note that PSC Order, 2002-00105 does not indicate what "billing determinants" (volumes) were used by the Commission in arriving at their recommended revenue increase included in Appendix B of the Order. Petitioner assumes that the relevant volumes were those cited in Petitioner's Exhibit N, Schedule 13 in Petitioner's Application for Case No. 2002-00105. A review of the basic data for the current case as compared to the prior case shows that although the total consumption has increased, significant decreases in certain customer classes have occurred. For example, in the prior rate case, Campbell County monthly accounts (all customer classes) had an associated consumption of 429,000 ccf. In the current case, these residents have a test year consumption of 215,980 ccf. Similarly, Campbell County quarterly accounts in the prior case had 2,282,900 ccf of consumption versus only 1,974,165 ccf under the current case. A change in the distribution of usage can impact the total revenue generated from user charges.

- B. The difference in revenues of \$512,539 indicates that the billing determinants for the test year used in the current case are lower than the billing determinants used in the calculation of the \$7,748,193 rate increase in the prior case. Please explain the reasons for this.

**Answer/Witness: Howe**

In the Commission's determination of the revenue adjustment (Appendix B of PSC Order 2002-00105), the adjustments made by the Commission to the Petitioner's request were in the to (1) include debt service coverage; (2) adjust for a 3-year debt service average; (3) incorporate minor differences in allowed operating expenses, depreciation, and taxes other than income; (4) remove the main repair, replacement & extension reserve; (5) amortize the Boone & Florence reserve; and (6) miscellaneous other small adjustments. The net result of all these adjustments was a revenue requirement of \$7,748,193. To the best of Petitioner's knowledge, the Commission did not make any adjustments to the "billing determinants". As such, Petitioner's explanation for the difference in the revenue adjustment is still valid – the application of the approved rates were to test year volumes (actual) and these volumes differ from those submitted in the prior rate case and shown above.

AG-2-6) Re. response to AG-1-16(a): The AG invites Mr. Howe to add across all the Test Year revenues shown in Exhibit N, Schedule 5. Mr. Howe will find that such revenues total \$1,279,553, or \$21,535 less than the \$1,301,080 reflected in Schedule 5. It would appear that the District double counted the Hydrant revenues of \$21,535. If Mr. Howe still disagrees with this, please explain your disagreement in detail.

**Answer/Witness: Howe**

The AG is correct. There was a double-count of the hydrant revenues. Those revenues have been adjusted accordingly.

Similarly, in revised Schedule 5R, the total revenues for the test year added across amount to \$1,575,675, or \$21,535 lower than the total revenues of \$1,597,210 reflected. Please explain this discrepancy and confirm the correct Test Year revenue number.

**Answer/Witness: Howe**

See above.

AG-2-7) Exhibit N, Schedule 3R shows total debt service numbers from existing bonds that are different from the corresponding total debt service numbers from existing bonds presented in letter dated 11/21/03 from Mr. Hughes to Mr. Dorman, as restated below:

	<u>Schedule 3R</u>	<u>11/21/03 letter</u>
2003	\$ 8,371,108	\$ 8,371,108
2004	\$10,363,203	\$10,347,586
2005	\$10,192,228	\$10,180,744
2006	\$10,186,377	\$10,177,099
2007	\$10,198,767	\$10,189,241



In this regard, please provide the following information:

- A. Confirm the above information and, if you disagree, explain your disagreement.

**Answer/Witness: Howe/Barrow/Ross**

**The information in Schedule 3R and the letter of 11/21/03 are both correct.**

- B. Indicate which of the numbers in the above table should be used for ratemaking purposes in this case, the Schedule 3R numbers or the more updated 11/21/03 letter data.

**Answer/Witness: Howe/Barrow/Ross**

**For rate-making purposes, and in accordance with the District's General Bond Resolution, as amended, the debt figures provided in Schedule 3R should be used. Please see Petitioner's response to PSC's Request of October 28, 2003, Question 7c for the requirements of the General Bond Resolution, as amended, and Question 8 for an explanation of accrual basis.**

- C. Confirm that if the more updated numbers from the 11/21/03 letter are to be used, this would reduce the average debt service number of \$10,553,247 on Schedule 3R by \$9,181 and would also reduce the debt service coverage by \$1,836.

**Answer/Witness: Howe/Barrow/Ross**

**Please see above. Schedule 3R should be used as the basis for determining the average debt service and debt service coverage requirements.**

AG-2-8) Please provide an updated copy of the Excel file (PSCCopy\_RateCase03\_0831Filing\_O\_ WithNewportRevCalc) that reflects the revisions shown in Appendix C revised.

**Answer/Witness: Howe**

**A copy of the Excel file with all schedules is provided on the attached CD. Please note that this file reflects changes and revisions made, in light of the questions raised by the Commission and AG, and is Petitioner's Revised Appendix C, of Exhibit N. Please see Tab 1 for CD.**

AG-2-9) AG #45 asked for the methodology that was "used to develop the commodity charges" in each consumption block. The response refers to Appendix C of AWWA Manual M1. Appendix C relates to establishing the block structure (that is, the

amount of consumption included in each block), but not the rates to be charged for each block. Please describe the methodology that was used to determine the specific rates for each consumption block.

**Answer/Witness: Howe**

Appendix B of AWWA Manual M1, used in conjunction with Appendix C is the methodology used to determine the rates for the consumption blocks. As noted in M1, the consumption blocks, in general, correspond to different customer classes. For example, residential customers typically fall into the first block of consumption, commercial the second, and industrial users, the last block. The bill tab generated through Appendix C of M1 gives an indication of how well the blocks reflect this assumption (in other words, how much of the each customer class' usage is captured in each block). The methodology outlined in these Appendices are illustrated in Schedule 16.2 of Petitioner's Exhibit N. Schedule 16.2 shows the development of the commodity charge. Starting with the adjusted allocated cost of service, revenues from the proposed service charge and other revenue sources are subtracted to arrive at the revenue to be recovered via the volume charge. The cost -of-service commodity charge is then arrived at by taking this revenue requirement and dividing it by the test year volume for each customer class.

AG-2-10) The response to AG #53 refers to AWWA Manual M1 as being the source for equivalent meter and service ratios. The ratios shown in the Manual are based on hypothetical costs for a hypothetical utility. Has NKWD conducted any analysis to determine that it is reasonable to use those cost ratios in 2003 for its system? If so, please provide a copy of such analysis.

**Answer/Witness: Howe**

The equivalent meter and service ratios used in M1 were based on a study conducted by Mr. Robert Banker of Black & Veatch in 1966. The study surveyed a number of large utilities, including Detroit Water and Sewer, and developed meter capacity, meter cost, service cost, and meter & service cost ratios for meter sizes ranging from 5/8" to 48". Mr. Banker was one of the founding authors of the original AWWA M1 manual. In 2001, when the M1 manual was updated, Appendix B was added. According to the current head of the Rates and Charges committee (the committee responsible for M1), Mr. Rowe McKinley of Black & Veatch, a study was performed in the 1980's to re-examine the meter & service costs. The results of the study indicated that the ratios developed by Mr. Banker in the 1960's were still valid. Partial results from the later study are included in Appendix B. The general practice in rate-making is to use the ratios found in M1 because it is a very time-consuming and costly effort to compile these figures for each utility studied.



**Follow up responses to AG's questions 8 and 10 from first data request.**

AG 1-8 requests the following:

In the same format and detail as per the top part of page 30 of Exhibit C, provide the annual gallons sold, average rate per gallon sold and annual revenues associated with each of the Sales for Resale customers during the test year ended 5/31/03.

The first response references Schedule 13.3R of the Petitioner's Revised Exhibit N, Appendix C (in Tab 15 B of the District's response to the PSC Staff's data request).

The supplemental response reports the unadjusted volume in ccf along with the reported revenues. The supplemental response does not present the information in the same format as requested.

Please supply the (1) annual gallons sold, (2) average rate per gallon sold, and (3) annual revenues in the format as shown on the top part of page 30 of Exhibit C (Sales for Resale) associated with each of the Sales for Resale customers during the test year ended 5/31/03.

**Answer/Witness: Howe.**

	Unadjusted Volume	Adjusted Volume	Adjusted Volume	Average Rate (a)	Reported Revenue
	ccf	ccf	1,000 gallons	\$/1,000 gallons	\$
<b>Wholesale</b>					
Boone County	2,504,369	2,326,308	1,740,200	1.46	2,548,893
City of Florence	1,381,396	1,283,179	959,885	1.47	1,409,769
City of Bromley	10,326	9,592	7,175	1.73	12,378
Bullock Pen	110,460	102,606	76,755	1.64	125,805
City of Walton	227,072	210,927	157,785	1.45	228,822
Taylor Mill	548,486	509,488	381,124	1.48	565,237
Pendleton County	126,664	117,658	88,015	2.05	180,142
Total	4,908,773	4,559,759	3,410,939	1.49	5,071,044

(a) The average rate represents a blended rate for the test year. Unified rates for Kenton and Campbell Counties, per PSC Order 2002-00105 went into effect 06/10/2003.

AG 1-11(a) requests the following:

Provide the actual number of test year gallons associated with the Boone and Florence test year sales revenues of \$3,958,575 the District is proposing to remove from this case.

The first response indicates 2,326,266 ccf or 31,097,646 gallons for Boone County and 117,656 ccf or 1,572,834 gallons for Florence.

This office advised that the answer did not seem correct. The supplemental response indicates that a correction has been made. The supplemental response, however, does not seem correct. Using a conversion factor of 7.48 to convert ccf to gallons, the Florence 1,283,179 ccf corresponds to 9,598,179 gallons which is close to the 959,884,655 gallon amount per the supplemental response. The Boone 2,326,266 ccf corresponds to 17,400,470 gallons which differs significantly from the 1,740,167,632 gallon amount per the supplemental response. Additionally, the numbers per 11(a) do not comport with the Boone and Florence numbers per the response to AG 1-8.

Please review the response and the AG's prior discussion of the initial response and provide the correct answer. It would be helpful for the District to reference the source of the information in 11(a) and reconcile it to information in AG 1-8.

**Answer/Witness: Howe**

**To clarify - the previous responses to the AG's request used erroneous figures from either the prior rate case (first instance) or a different test year (second instance). Our apologies. Corrected figures which foot to Petitioner's response 11a above are provided below. Please note that the volumes in column 1 of 11a are in ccf (hundred cubic feet) and the converted volumes in column 2 are in thousands of gallons.**

**The conversion factor used is  $\text{ccf} \times (100 \text{ cf/ccf}) \times 7.48052 \text{ gallons/cf}$**

Boone County	1,740,200	thousand gallons
City of Florence	959,885	thousand gallons